



LIFE ASSOCIATION OF SCOTLAND.

MONTREAL, JANUARY 1870.

DEAR SIR,

*As you are interested in the Association, there is enclosed herewith a copy of our new Pamphlet and annual Report, containing full statements of our position and transactions.*

*I have to draw your particular attention to the SPECIAL INTIMATION by the Directors as printed on the first page of the Pamphlet, relating to the unusual close and continuous Audit to which the transactions of the Association have for many years been subjected under the hands of a skilful Public Accountant (apart from the Directors and other officials), and to the rigid tests which have been applied in the valuations of the Life Liabilities. Statements to a similar effect have frequently appeared in the Annual Reports, but the Directors have thought it desirable to repeat the intimation in a more emphatic form, in consequence of the present position of at least one Assurance Company prominently commented on in the public newspapers. It had for a considerable time been known among Actuaries that the career of the Office alluded to, must very shortly have reached its present crisis. But although the result in that case has given no surprise to those in the profession, it has probably occasioned the less-informed portion of the public to entertain some feeling of distrust of Life Assurance generally. Unfortunately also, the comments and discussions that have followed in the newspapers have not always been written with judgment. Indeed, many of them exhibit not a little ignorance of the subject, and tend rather to mislead and confuse.*

*FOR INSTANCE—In some of these popular discussions it has been affirmed that a Life Office of standing ought to have accumulated Funds amounting to a certain proportion of the Sums Assured; and again, that the Funds ought to amount to a certain number of times the Premium Income. Both of these ideas are entirely erroneous, for an Office may fully satisfy any such requirement, and yet its Funds may, or may not, be enough to meet its liabilities. Actuaries well know that Life Assurance Liabilities cannot be estimated, even roughly, in any such manner.*

*CERTAIN NEWSPAPERS have published also tables of the Funds, Risks, and Income, &c., of the several Life Offices. The figures in these are in many cases most inaccurate, and even if accurate, are perfectly useless for the purpose intended. A simple comparison of the amount of Funds exhibited by two Offices, having the same nominal amount of Assurance Risks, can afford no proper ground for forming an opinion regarding either of the Offices; and for this reason, that the risks of the two may*

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be very different in the ages of the lives, the endurance of the policies, or the description of the assurances, and also as regards the amount of Bonus Additions (if any) attached to the policies. Each of these points—in which no two Offices are alike—is of the highest importance, and affects to a very great extent the amount of Funds required to meet the liabilities. For example, Policies effected by a limited number of payments (which are much more numerous in some Offices than in others), and Bonus Additions to ordinary Sums assured, require larger Funds in hand than the same amount of common Life Policies. You will, thus, see that little reliance is to be placed upon the guidance of newspaper writers on so purely professional a subject as Actuarial Valuations.

The ultimate effect, however, of greater public attention to the conduct of Life Offices, as well as the action of Parliament now in prospect, will doubtless be an increase of transactions in sound and useful Institutions like the Life Association. The Directors of the Association have always been careful to act on the most approved and prudent principles in the admission of Lives, the investment of the funds, and in every other department of the business. Excessive expenditure and all speculative transactions have been avoided, and thus the Funds have been maintained without loss, and have uninterruptedly undergone a continuous and most ample increase, fully equivalent to the liabilities. In the valuations, only what is technically called the "net premium" has been employed for the purpose of ascertaining the amount of Funds to meet the Sums Assured and other engagements, the effect being to leave unappropriated and untouched, the whole of the extra loading or margin beyond the "net premium." The Association has, thus,—over and above what is required to meet its entire liabilities,—a large surplus income of many thousand pounds per annum, reserved to come in from year to year as an additional cover for expenses and any contingencies that may arise.

The Directors are desirous to avoid indulging in extravagant promises and assumptions of superiority, such as are put forth by some other Offices; but they are fully warranted in stating that they have been enabled to give Bonuses and other Benefits of the highest class as compared with those of any of the Association's competitors, and that their Policy-holders are treated with a liberality even beyond what is usual.

I have the pleasure to state also, that the new Entrants for the current year up to this time, in the principal parts of the kingdom, as well as in Canada, have been considerably more than for the same period of last year.

I am,

DEAR SIR,

Yours faithfully,

P. WARDLAW,

Secretary.